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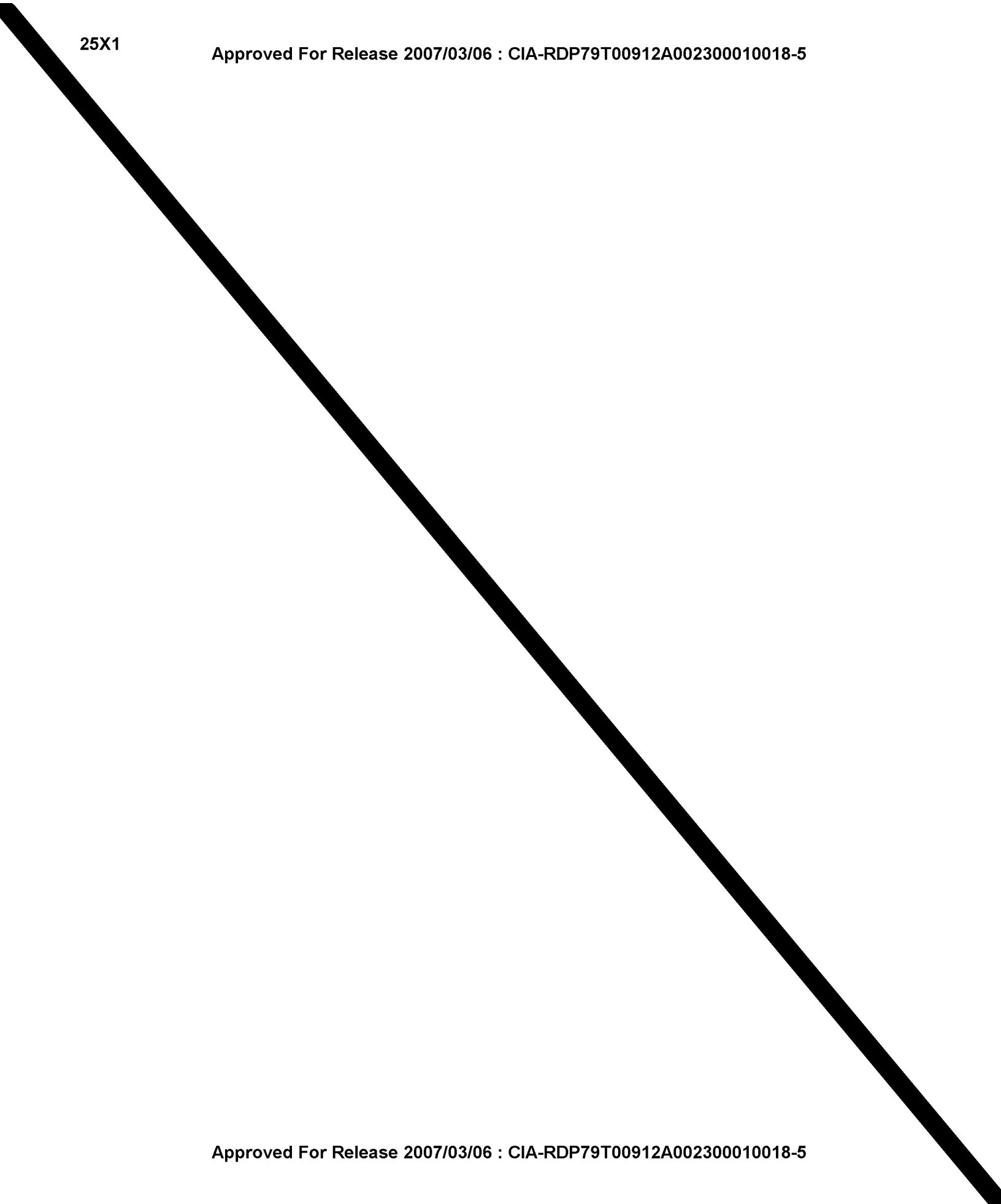

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INTERNATIONAL ISSUES MONTHLY REVIEW

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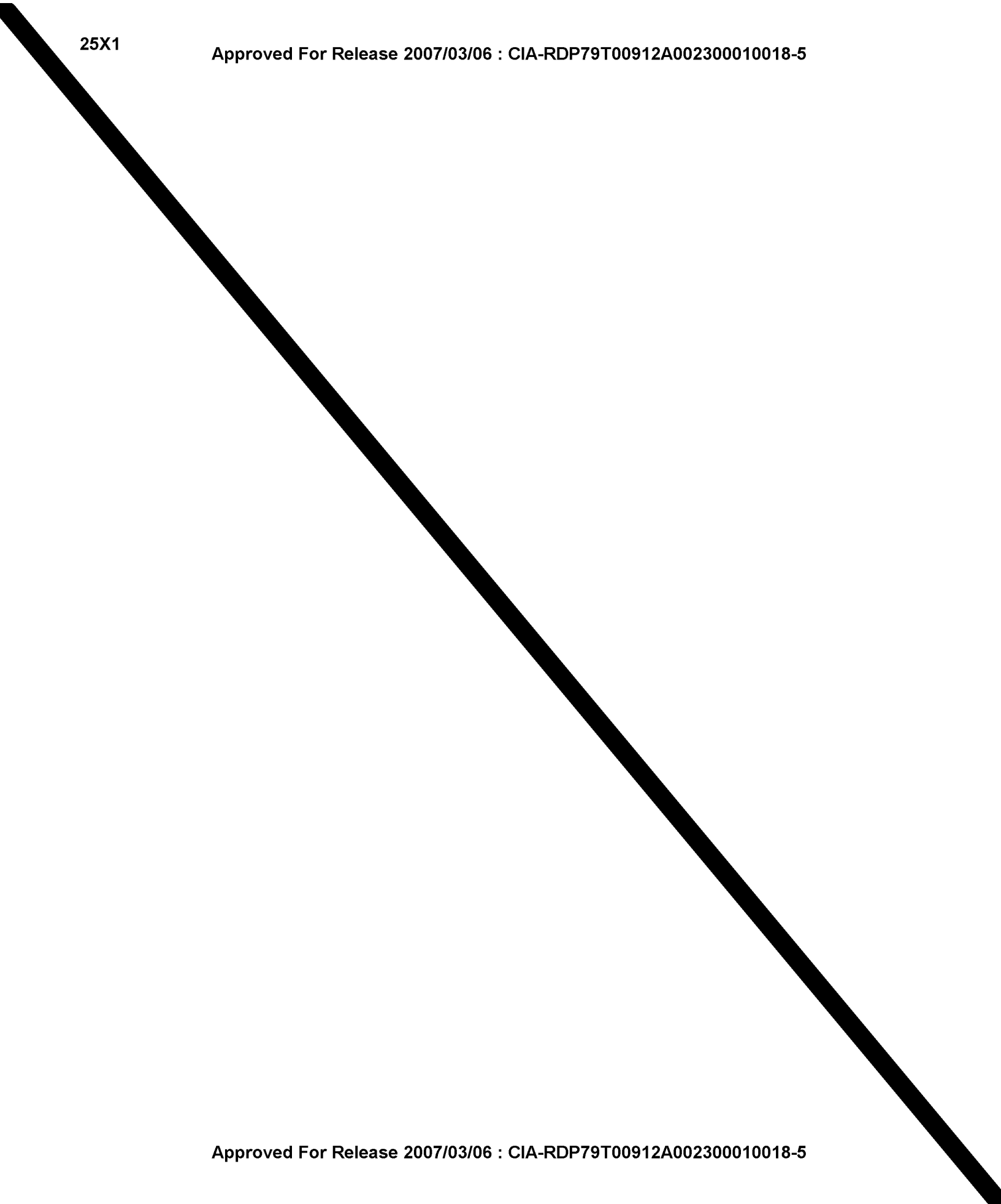

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The Status of the UNCTAD Common Fund Negotiations

Reports from the US Mission to the UN in Geneva and from the steering group of the Group of 77 (the LDC UN caucus) indicate that the US will shortly become the sole OECD holdout on the two key LDC demands that have thus far prevented agreement on the UNCTAD Common Fund for Commodities. These demands are that the fund be financed in part by direct government contributions and that it include a "second window" to support certain kinds of commodity-related development projects.

This article assesses the prospects for US isolation on the Common Fund issue, and thus for increasingly heavy political pressure both from OECD partners and from LDCs to alter its position. The principal conclusions are that:

-- *Japan and the West European states that have so far supported the US position will at least partially accept the two contentious LDC demands by the time of the EC and Big Seven summits in July.*

-- *If they do not do so then, they will feel even greater pressure to do so in the fall, as preparations intensify for UNCTAD V (scheduled for May 1979).*

-- *Under any circumstances, the Group of 77 will continue to insist on some form of direct contributions and a second window.*

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The Group of 77 Position

The UNCTAD negotiations on the Common Fund were suspended last December at the initiative of the Group of 77. The Group was frustrated at the unwillingness of the principal industrial countries (Group B) to accept its demands that: (1) the fund's capital structure include mandatory direct government contributions as well as resources from commodity agreements; and (2) there be a "second window" to finance such "other measures" as diversification, market promotion, productivity improvement, and commodity processing.

There are broad differences among LDCs in their attitudes to the Common Fund. The majority of poor developing countries, such as those in South Asia and Africa, believe they have little to gain from a Common Fund limited to stabilizing commodity prices. They therefore insist on a second window that would help them diversify and strengthen their economies.

Most of the wealthier commodity-producing LDCs such as Nigeria, Indonesia, and Malaysia are not interested in the Common Fund features demanded by the poor LDCs. They are mainly concerned with price stabilization and with a successful outcome to the international commodity agreement negotiations for individual commodities such as tin and rubber.

The economic interests of the relatively wealthy LDCs might therefore have led them to accept the type of Common Fund proposed by Group B--one without a second window or direct government contributions. Their political interest in maintaining Group of 77 unity and keeping their influence in that body, however, has brought them to support the poor LDCs' demands in the Common Fund negotiations. They do not seem likely to withdraw that support--especially since they expect substantial Group B concessions on the two contentious issues.

At two recent meetings of the Group of 77 steering group, the firm belief was expressed that all industrial states--except the US--are ready to make some concessions on the questions of the fund's financing and ultimate use. At the first meeting, Ali Alatas, the Indonesian coordinator of the Group, said that France, Belgium, the

Netherlands, and the Scandinavian countries are willing to help finance the second window. Alatas also believes that Australia--which recently moved to support the LDC demands--will press Canada to change its policy as well. Finally, after his recent talks in Tokyo, Alatas thinks that Japan is also ready to reconsider its position.

During the second meeting, in May, the steering group adopted a strategy to extract definite concessions from the majority of Group B countries, and thus to force the US to change its position. A principal aspect of this strategy is to accept the idea of voluntary funding of the second window as a basis for reopening negotiations. This does not mean that the LDCs would accept such a system in a final agreement. They believe that only mandatory contributions offer a guarantee of financial security and want at least 25 percent of Common Fund resources used for the second window.

The steering group wants a 10-day UNCTAD preparatory conference called in the near future that would draw up a text to serve as the basis of renewed Common Fund negotiations in October. It apparently expects that such a text would express a general Group B and Group of 77 consensus that there should be a second window and direct government contributions to the fund, leaving the unresolved differences over the amount and utilization of such contributions to be dealt with at the Common Fund negotiations themselves.

The Current Group B Position

Of the industrial countries, only the Netherlands and the Nordic states have long supported most of the LDC demands on the Common Fund. For most other Group B governments, domestic economic constraints argue against generosity to LDCs--on this or any other aspect of the proposed "New International Economic Order." But other political and economic considerations exist that make them wary of appearing recalcitrant in the Common Fund negotiations.

Joining in a general Group B consensus in support of direct contributions and a second window would not earn a state special credit among the LDCs. Being identified as a roadblock to Group B agreement on these issues,

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however, would certainly discredit it among the developing countries. For the West Europeans, that would conflict with their aim of increased political influence in the Third World. In addition, the West Europeans and the Japanese want to avoid political conflict with the LDCs because of their concern with the security of non-oil raw material supplies and the preservation or enhancement of access to new markets in developing countries.

By the time of the November-December negotiations, most Group B members had decided that the benefits of making some concessions to the LDCs on the Common Fund outweighed the costs. They were willing to accept limited direct contributions and a voluntarily funded second window. But they were not willing to break industrial country solidarity on these issues. Since four states--the United Kingdom, West Germany, Japan, and the US--remained opposed to these measures, the official Group B position stayed unchanged. Now, however, as reflected in the Alatas statement, there is considerable speculation that only the US will continue to adhere to the original Group B proposals.

The US Mission to the UN in Geneva believes that there has already been a change in British policy, citing as evidence the UK's recent statements in an OECD Working Group, its behavior at recent commodity meetings, and most important, its agreement to the Commonwealth meeting communique endorsing a second window. Moreover, the Mission thinks that the British Government has accepted the recommendation of its Ambassador in Geneva that it no longer support the US position.

In our view, the UK is certainly reappraising, but has not yet changed, its policy. The LDCs, who are usually sensitive to such changes, have not reacted as if anything had occurred that could alter the status of the negotiations. Ambassador Alatas' comments, for example, omitted any reference to a shift in British policy.

The Japanese concessions reported by Alatas may also be more apparent than real. Knowing that he would soon return to Indonesia, his Japanese interlocutors would do all they could to avoid the appearence of an uncompromising Japanese position, even if the final decision was still to be made.

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Finally, the US Mission maintains that West Germany will probably change its policy on the Common Fund in order to avoid being isolated from the other EC members. The Mission reports that the West Germans have recently made some concessions to the LDCs in commodity negotiations, and Bonn's Geneva representative believes eventual West German support for a second window is inevitable. As in the British and Japanese cases, however, the tensions in the West German position have not yet been reflected in a clear policy change that would undermine the US position.

Propects for US Isolation*

Although the US is probably not now isolated on the Common Fund issue, the dynamics of the negotiating process will probably cause this to happen soon. West German Chancellor Schmidt seems likely to change his position at the Bremen EC summit meeting in July. If that happens, the UK would certainly fall into line (if it had not done so already). Tokyo would do so as well, since it would not want to be one of only two opponents to the LDC demands.

The West German Government (like that of most OECD states) is internally split over the Common Fund; the Foreign Ministry generally argues for accommodation, while the Economics Ministry takes a more cautious and conservative line. Thus far, Schmidt has sided with his Economics Ministry. But the Foreign Ministry's political arguments in favor of good LDC relations and EC solidarity should carry particular weight at the time of the Bremen summit.

A summit meeting creates strong pressures for visible results. Those pressures are usually felt most sharply by the host and incoming EC President country, which in this case is West Germany. The EC states would like to make a well-publicized decision in support of the LDCs at the summit; the Common Fund is an obvious candidate. Many EC members will, therefore, intensively lobby Bonn to change its Common Fund position at Bremen, and Schmidt will be more than usually likely to listen.

**The discussion in this section assumes that the US will not soon make concessions on direct contributions and the second window. If it did so, the other Group B members would undoubtedly follow suit.*

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The experience at the Rome EC summit in April 1977 strengthens the expectation that Bonn will make concessions on the Common Fund at Bremen. Before that meeting, West Germany was the only EC state that refused to accept the principle of establishing the Common Fund. At the Rome meeting, Schmidt acceded to the other members' pressure, and the US became isolated on that basic issue.

If the Rome summit experience is not repeated at Bremen and the EC position on the Common Fund remains unchanged, no new breakthrough in the negotiations is likely to occur in the succeeding few months. As the year progresses, however, the desire to avoid a contentious atmosphere at the UNCTAD V meeting in Manila next year will put renewed pressure on the developed countries, and the US in particular, to break the deadlock over the Common Fund.

Outlook for the Negotiations

The Group of 77 is not likely to abandon its insistence on direct government contributions and a second window. Because the poor LDCs, who are the staunchest advocates of the Common Fund within the Group of 77, would benefit only if the fund had guaranteed financing and included a second window, they would probably indefinitely resist accepting a fund without those features. The moderate, relatively wealthy LDCs do not have strong interests engaged one way or the other. Moreover, the nonresolution of the Common Fund issue gives the entire LDC caucus leverage over the developed countries on other questions. The Group of 77 can, and undoubtedly will, argue that the OECD states' unwillingness to concede on the Common Fund gives them a special obligation to be accommodating on other LDC economic demands. Thus, the LDCs will probably continue to feel better served with no Common Fund than with one that lacks a second window and direct government contributions.

This raises the question of whether the concessions currently contemplated by the West Europeans and Japanese would be enough to permit agreement on the fund. None of the OECD countries--except perhaps for the Netherlands and the Scandinavian states--is willing to accept completely the LDC version of the fund. Instead, they will probably offer limited direct contributions and a voluntarily

funded second window (or, following UNCTAD Secretary General Gamani Corea's proposal, one financed by mandatory contributions for just one year).

The Group of 77 is now ready to accept those terms only as a basis for resuming negotiations. It would undoubtedly press strenuously for its full demands at any negotiating conference. But it might eventually give in if the industrial states refused to offer any further concessions. A Common Fund featuring limited direct contributions and a voluntarily funded second window would give the LDCs at least some part of what they want. More important, it would create a basis for demanding larger, mandatory contributions to both the first and second windows in the future. [redacted] 25X1

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UN Special Session on Disarmament*

The UN General Assembly is currently holding its first special session devoted to disarmament. The nonaligned states--the driving force behind the session--want to use it to expand the role of developing countries in disarmament talks and to commit the superpowers to new initiatives on nuclear disarmament. The United States and the Soviets, although split on specifics, would prefer not to be pressed to agree to a timetable for negotiating more sweeping issues. The other industrial democracies, though generally in line with the United States, fall between the demands of the Third World and the positions of the United States and USSR in respect to calls for changes in the venues and the tempo of disarmament activity.

* * *

The five-week special session that opened on 23 May is an outgrowth of the desire of the developing--particularly the nonaligned--countries to participate more fully in the disarmament process, from which they feel largely excluded. Though not a negotiating forum, it is nonetheless an important political event. This is the first time since the Disarmament Conference of 1932 that most of the world's countries have met to discuss the control and reduction of armaments.

A general debate, in which many heads of government are participating, is taking place during the first half of the session. The remaining time until the session's scheduled close on 28 June will be devoted to completion of three documents: a declaration on disarmament, a program of action, and a document on disarmament machinery.

**Portions of this article are based on earlier work by analysts in the respective geographical divisions of the Office of Regional and Political Analysis.*

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A preparatory committee, meeting over the past 18 months, established the agenda and prepared draft texts. The drafts are still heavily bracketed, underscoring the significant differences among the participants. These disagreements are likely to be reflected in the general debate. Despite a widespread desire to reach a consensus, voting on at least some sections of the texts may be unavoidable.

The declaration on disarmament, essentially a call to action, consists of an appraisal of the current situation and an outline of goals and priorities for disarmament negotiations. Still unresolved are differences over the portions of the declaration dealing with nuclear disarmament, conventional weapons, and nonuse of force, but many delegates believe these can be resolved through consultations among the UN member states.

Differences over the program of action are more serious. It is considered the most important of the three documents because it seeks to set the agenda for disarmament negotiations for the next several years. The most difficult issues concern nuclear disarmament. The developing states want to achieve major progress toward nuclear disarmament by compelling the nuclear powers to commit themselves to measures that go far beyond the present strategic arms and nuclear test ban negotiations. Such measures would include a freeze on qualitative improvement in existing nuclear weapons and delivery systems and a halt in the production of nuclear weapons and fissionable material for making such weapons. The West prefers a more general text that would encourage progress on the most urgent matters, but would not attempt to initiate negotiations on these more sweeping measures.

The document on machinery deals with reform of the multilateral institutions that deal with disarmament. The principal issue will be broadening participation in and reforming the procedures of the 31-nation Conference of the Committee on Disarmament (CCD) in Geneva, which has been the chief multilateral negotiating body. Also to be discussed is a nonaligned proposal to revive the long-dormant UN Disarmament Commission as the main deliberative forum for disarmament. The nonaligned group, seeking to expand its influence and participation, has been most strongly in favor of altering the present

disarmament machinery. Most Western states will accept modest reforms, but do not wish to destroy the character of the CCD as a relatively small negotiating forum. The Soviets are the staunchest supporters of the existing machinery, but do not want to be isolated and may agree to minor structural changes.

Third World Concerns

Although most developing countries have an interest in disarmament issues, the nonaligned group (particularly Yugoslavia, Argentina, Nigeria, and India) has led the way in creating support for a conference open to all nations and has acted as spokesman for the developing countries in general.* This group has worked to modify many of the issues in order to gain greater acceptance for certain basic disarmament concepts and was most influential in developing the main parts of the draft documents for the session.

The developing states want the session "to mark a definite change" in efforts toward arms control and disarmament, that is, to create greater opportunities for their participation and involvement. Their major concern is to commit the superpowers to specific steps leading to the reduction and ultimate dismantling of nuclear arsenals. The developing states acknowledge the importance of SALT and a comprehensive nuclear test ban, but assert that nuclear weapons are too great a danger to delay proceeding to further nuclear disarmament measures.

Arguing that all states would suffer in a nuclear conflict between the superpowers, the nonaligned countries stress the priority of nuclear disarmament over limiting conventional weapons. They perceive arguments for conventional arms restraints--particularly Western arguments against conventional arms purchases by the Third World--as diversionary tactics designed to justify and draw

**Mexico, although not a nonaligned member, is very concerned about the arms race and has also been an active participant in preparing for the session and in disarmament issues in general. It led the movement that resulted in the treaty declaring Latin America a nuclear weapon-free zone, and since 1969 has openly pushed for a reorganization of the CCD.*

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attention from the limited results of the nuclear disarmament negotiations. The developing states have already indicated that any concessions they may make on those portions of the action program dealing with conventional weapons will require reciprocal concessions on nuclear weapon issues. They also stress that halting "horizontal" (country to country) proliferation will ultimately depend on the nuclear states' willingness to restrain "vertical" proliferation (upward spiral of their own arsenals).

The nonaligned states are seeking explicit guarantees that nuclear weapons will not be used against nonnuclear weapon states. They are also pushing for wider acceptance of the concept that at least some of the savings resulting from disarmament should be used for development assistance, as well as acceptance of their assertion that it is "the inalienable right of all states" to develop nuclear technology for peaceful purposes.

In addition to shared Third World concerns about the superpowers, regional and national security concerns are likely to be raised. Nigeria's apprehension about possible South African acquisition of nuclear weapons and Pakistan's (not a nonaligned member) fear of the Indian nuclear capability are examples of such concerns. The US may be criticized for the recent, controversial Middle East arms sale, which some countries view as an example of a "selective" restraint on arms transfers.

Western Europe

The special session on disarmament was the subject of detailed and frequent consultations within both NATO and the European Community. Based on a program announced in January, French President Giscard in his address to the General Assembly advocated:

-- The creation of a new disarmament negotiating forum directly linked to the UN and not cochaired by the US and the USSR.

-- The creation of a satellite monitoring agency to oversee the flow of arms.

-- The convening of a "European" disarmament conference, with the United States and Canada participating, to bring about a reduction of weapons in Europe.

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-- The creation of a $1 billion fund, financed by arms control savings among the nuclear powers and other "armed and rich" states, to assist the developing countries.

Giscard hopes thereby to reduce the USSR's reliance on military force and to promote a balanced framework for the industrialized states' relations with the developing nations.

The French are concerned primarily with fundamentals--who participates, what types of weapons are to be included, and what is to be done about them--rather than with technical details. This approach reflects in part France's determination to see its national objectives incorporated in the terms of reference for the disarmament dialogue. The French maintain, however, that their approach would also place international disarmament on a "realistic" basis for the first time, that is, it would make the talks more representative and accommodate a variety of political objectives and constraints. The French can be flexible on technical aspects, but can be expected to resist stubbornly any alternatives to their proposals that are inconsistent with their political objectives.

Although France's EC partners are eager to support the French proposal, they have doubts about its effectiveness as well as certain legal and security reservations. They hope that France will be drawn into future disarmament negotiations and generally share the French view that superpower dominance of those talks must end if West European security concerns and the interests of the nonaligned countries are to be adequately represented.

The Dutch are proposing the creation of an international disarmament agency, with satellite monitoring among its possible responsibilities. The British are expected to offer a "draft program" on disarmament. They will also publicly state that they favor discussions aimed at providing negative security assurances. Chancellor Schmidt of West Germany, in his address to the session, spoke in favor of restricting transfers of conventional arms and offered to make available German expertise in verifying disarmament agreements.

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The five Nordic states will emphasize their long-standing interest in nuclear disarmament. Four of them, however, are not happy that Finnish President Kekkonen in early May revived his proposal--first made in 1963--for making the Nordic area free of nuclear weapons. They have long believed that the proposal is Soviet-inspired. They are aware that in his recent remarks, Kekkonen cited only Western weapons and did not mention the Soviets' nuclear submarines in the Baltic Sea, an issue of much concern to the other Nordic states.

Soviet Union

Foreign Minister Gromyko's address at the special session was basically a reiteration of known Soviet disarmament proposals, with a few new modifications. The speech was generally moderate in tone--even the few barbs at the United States were delivered with relative restraint.

The substance of Gromyko's remarks was delivered a month ago by President Brezhnev in his speech to the Soviet Communist Youth congress in Moscow. The central aspects of the Soviet proposals are a halt in the production of nuclear weapons and the gradual elimination of nuclear weapon stockpiles. To this end, Gromyko proposed that talks involving all nuclear powers begin.*

Gromyko touched on most existing arms control discussions, saying that one concrete result of the special session could be a fresh impetus to the multilateral and bilateral negotiations under way. He gave a positive assessment of the strategic arms negotiations, and said that the Soviets are prepared "immediately" after signing SALT II to move on to talks that "should lead--with all the necessary factors taken into account--to a substantial reduction" of strategic arms and a further limitation on qualitative improvements.

**The Soviets also introduced a paper on "practical ways to end the arms race," which is somewhat inconsistent with Gromyko's insistence that all nuclear powers must participate in negotiations. The paper suggests that not all nuclear weapon states need to be involved in the process from the outset. The Soviets, however, would have to show considerable flexibility in order to take account of the French and Chinese positions if they are serious about this proposal.*

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Referring to the prevention of the spread of nuclear weapons, Gromyko offered the so-called Kosygin negative security assurance formulation, which states that the Soviet Union will not use nuclear weapons against those states that renounce the production and acquisition of such weapons and do not have them on their territories. Gromyko pointed out that the USSR had signed the Treaty of Tlatelolco, which established a nuclear weapon-free zone in Latin America, and said that the Soviets would continue to support the establishment of such zones in other parts of the world.

Other notable points in Gromyko's speech included a proposal that military budgets of states with a large economic and military potential--and in the first instance the permanent members of the Security Council--be reduced not in percentage, but in absolute figures. Gromyko said part of the funds thus saved should go to developing countries. Describing as urgent the issue of limiting transfers of conventional arms, Gromyko left open the opportunity to provide weapons to what he called victims of aggression or to liberation movements.

Gromyko's statements on disarmament machinery showed the Soviets' sensitivity to proposals for changes in the existing structure. He also reiterated the familiar Soviet proposal for a world disarmament conference.

Although the possibility exists for a Soviet-American confrontation at the special session, the potential for it will be limited by the Soviet desire for US support on the issue of maintaining the present disarmament machinery, as well as by a desire to defend the US-Soviet record on arms control. The United States and USSR are also likely to find common ground on the twin issues of promoting peaceful nuclear cooperation while restricting the proliferation of nuclear weapon technology.

The Soviets are likely to resist nonaligned efforts to compel the major nuclear powers to commit themselves to specific disarmament obligations or deadlines. Soviet diplomacy will probably attempt to channel nonaligned sentiment into a general condemnation of Peking's policy on arms control and of US policy on enhanced-radiation weapons.

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China

China's attendance at the special session is for the express purpose of "indicting the superpowers." This is the first formal international disarmament meeting China has attended. Peking opposes limited arms control forums and instead has called for a world summit conference to discuss nuclear disarmament. The session, as an international forum open to all UN members, comes close to meeting the Chinese requirement. The Chinese delegation is headed by Foreign Minister Huang Hua, thus signaling the importance Peking accords the session. In general, China apparently intends to adhere to its traditionally rigid and negative arms control posture.

At the center of China's public arms control policy is the demand that each of the other nuclear weapon states declare that it will not be the first to use nuclear weapons, particularly against nonnuclear weapon states. Although there are no indications that China will take any formal initiatives in the session, it has already repeated its calls for such no-first-use statements.

China has also endorsed a number of Third World proposals that accord with its own position. These include support for nuclear weapon-free zones; negative assurances; restructuring disarmament machinery; the right of the developing countries to employ nuclear energy for peaceful purposes; the prohibition of foreign military bases and the stationing of troops abroad; and the channeling toward economic development in Third World countries of funds released through reductions in military expenditures.

On the other hand, China opposes nonaligned demands for a comprehensive nuclear test ban treaty and reduction of military budgets, both of which it believes would be advantageous to the Soviet Union. Peking wants the United States and Western Europe to maintain military strength to counterpoise the Soviet Union.

Finally, China will continue to use the special session to condemn the United States and the USSR, singling out the USSR as the more aggressive. During the course of the session, the Chinese can be expected to oppose any Soviet--or US--initiatives as a matter of principle.

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Outlook

The session will not produce any arms control agreements. It is intended to accelerate the slow pace of disarmament by developing an agenda, a program of action, and a broadened organizational structure.

The publicity accorded UN General Assembly sessions could encourage more posturing among the developing nations than would occur at a less conspicuous meeting. The developing states will push the United States and Soviet Union for concessions on important issues, but they realize that given the nonbinding nature of General Assembly documents their best chance for effecting change is through bargaining rather than confrontation. Unless these states perceive the United States or the Soviets are stalling, they will probably soften their initial demands somewhat in the belief that some concessions are better than none.

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West European Conventional Arms Transfers: Potential For Restraint

An important aspect of US conventional arms transfer (CAT) policy is the effort to persuade other major suppliers to join in limiting arms exports to LDCs. This paper assesses the prospects for West European acceptance of multilateral CAT restraints. Its principal conclusions are that:

-- *The incentives for continued West European arms sales to developing countries are currently much more powerful than those for restraint.*

-- *The West European suppliers would probably join a multilateral restraint program if the loss of sales to LDCs was compensated by increased access to NATO markets, and if they were assured of full Soviet and Western participation in such a program.*

-- *The West Europeans do not expect these conditions to be met.*

* * *

Effective restraints on conventional arms transfers would require broad cooperation among supplier countries. Unilateral US restraint would do little good if other suppliers continued to spur the LDC arms race and could entail substantial secondary costs if new arms markets--and therefore potential for influence--were made available to the Soviet Union.

There would be less danger for the US if West European states increased their influence in the Third World by taking over American arms markets. Nonetheless, such a development would frustrate US efforts to reduce overall

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arms sales to developing countries and undercut the effectiveness of US unilateral restraints over the longer term.

The Scope of the West European Arms Industry

France, the United Kingdom, and West Germany are the world's largest conventional arms suppliers after the US and the Soviet Union, as shown in the accompanying table. They sell mainly to the Middle East, but increasingly to Latin America and South Asia, and they maintain important markets in Africa.

The British, and especially the French, can offer LDCs an array of high quality, sophisticated, military hardware that compares favorably with much US equipment. West German sales consist primarily of ground force equipment, small ships, and small submarines. The other West European arms suppliers--Italy, Belgium, the Netherlands, Sweden, and Switzerland--sell mainly ground force equipment, small ships, and some aircraft. Specialization and cooperation among the West European arms industries is increasingly reflected, and encouraged, by a variety of binational and multinational coproduction agreements.

West European Attitudes Toward CAT

Most of the West Europeans are not only able but also willing to offer a credible alternative to US arms supplies. France and Italy have recently accelerated their sales efforts, taking advantage of consumer uncertainty about the availability of American weapons. West Germany and Sweden in principle support US proposals for multilateral CAT restraints, but at the same time they are pursuing sales that require a liberal interpretation of their own restrictive export guidelines. The UK, Belgium, and the Netherlands say they welcome the concept of supplier constraint, but refuse to limit sales until a multilateral program is implemented.

Economic Motives for Continued Sales

In all West European nations, economic considerations provide the most important short-run incentives for continued arm sales. They are all experiencing an

Military Sales to the Third World, by Major Supplier[1]

Million 1976 US $

	1974	1975	1976	1977
Total[2]	23,050	18,600	17,860	21,215
United States	12,100	11,000	10,900	10,300
USSR[3]	6,355	3,180	4,355	5,925
France	2,935	2,315	615	2,395
United Kingdom	855	1,105	1,565	1,585
West Germany	805	1,000	425	1,010

[1] These data are sales and aid commitments and are to be differentiated from military exports (deliveries).

[2] Recipient total includes Greece and Turkey and excludes Spain and Portugal. Because of the general reporting lag on arms agreements, the 1977 figures should be treated as minimum values.

[3] Soviet dollar values indicate the cost of providing comparable items in the United States. Valuation of Soviet agreements at Soviet trade prices would be about 25 percent lower.

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extended period of slow growth and high unemployment, which makes them reluctant to accept cutbacks in arms exports to LDCs. Since domestic and NATO markets are limited, production--and employment--in the arms industry would inevitably fall if LDC trade were cut off or restricted.

The conventional arms industry employs about 1.5 percent of the working population in France, and about 1 percent in each of the other West European countries. Layoffs caused by internationally agreed CAT restraints might be acceptable if there were full employment and excess workers could be easily absorbed into other sectors. At present, however, the political, social, and economic costs of reduced employment in the arms industry would be difficult to accept.

In addition to their impact on economic growth and employment West European arms exports to LDCs also have an important balance of payments effect. Since the 1973-74 quadrupling of oil prices, all West European states--with the exception of West Germany--have experienced serious balance of payments problems at one time or another. For France and Italy, the problem is both chronic and severe. When arms are not sold for needed currency, they are sometimes bartered for equally needed Middle Eastern oil. In either case, pressure on the West European state's balance of payments is eased.

Finally, the Third World market is necessary for the very existence of much of the West European arms industry. Without the economies of scale that result from producing for a larger market, the unit costs of many West European arms would be prohibitive. This is especially true for sophisticated, high technology weapons. For example, the French might not be able to afford to produce Mirage aircraft for their own air force if they could not also sell them to the LDCs.

Political Motives for Continued Sales

While much of the West European defense industry would not be economically viable without LDC sales, the decision to create and maintain that industry is in large part political. The existence of a well-developed indigenous defense industry gives the state involved increased prestige and enables it to pursue an independent defense policy.

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In Western Europe, those motives are obviously most important to the French. Traditionally the US ally most skeptical about the coincidence of its defense interests with those of the US, France has developed the largest and most sophisticated defense industry in Western Europe.

Although other West European allies of the US do not fully share the French attitude, they are increasingly questioning the extent to which US and West European security concerns coincide, both within and outside the NATO area. That doubt strengthens their political commitment to maintain some form of national or regional arms manufacturing capability. Thus, the West Germans, who are prevented for domestic and international political reasons from having a fully developed national arms industry, are increasingly involved in West European coproduction arrangements.

In the eyes of the West Europeans, just as arms production enhances the possibility of an independent defense, so, too, do arms sales to LDCs enhance the possibility of political influence in the Third World.* To some extent, especially in Africa, the West Europeans want positive leverage over LDCs--the ability to persuade them to take certain courses of action. But to a much greater degree, and perhaps more realistically, they hope for negative leverage--the ability to persuade LDC arms recipients not to take actions that would damage West European interests.

Above all, the West Europeans want to avoid another Middle East oil embargo or a steep oil price increase. That, combined with an awareness of where the money and the demand are, explains why most West European sales efforts in the past few years have been directed at Middle East oil producers. The same kind of motive inspires West European arms sales to a broad range of LDC customers that supply raw materials or provide potential

**The desire to foster good relations with LDCs not only helps motivate arms sales to them, but also makes otherwise sympathetic West European states reluctant to join CAT restraint efforts that the LDCs oppose. For example, Sweden's support for a CAT resolution at the current UN Special Session on Disarmament is tempered by its reluctance to alienate LDCs who oppose such a measure.*

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markets for other West European products. Economic and political motives for continued West European arms sales to the Third World are thus interdependent and mutually reinforcing.

Finally, many West European governments argue that Western CAT restraint would have an important negative impact on the global balance of power. They maintain that if certain LDCs were denied access to US or West European arms, they would--if their need for weapons was great--have no choice but to turn to the Soviet Union. Since the apparent need for arms would be greatest in areas of actual or potential conflict, the Soviets would gain market access and consequent potential for influence precisely in those regions where its presence could be most dangerous and destabilizing.

Motives for Restraint

Compared to the motives for continued arms sales by West European suppliers, the motives for restraint are weak. There is some ideological opposition to arms exports, particularly on the political left. That opinion is probably most influential in West Germany, where reaction to the experience of World War II has made restrictions on arms transfers both legally and politically necessary. Initially West Germany sold arms only to other NATO members. After 1971, exports were allowed--under firm government control--to other countries, but not to areas of conflict. Since the 1973-74 oil embargo, however, the government has been under strong economic pressure to relax its generally restrictive arms export policy. In 1977, it approved the sale of frigates to Iran, largely to maintain employment in West German shipyards. Many Social Democratic Party and trade union leaders oppose such sales, but the rank and file tend to support them for economic reasons. A continued liberal interpretation of West Germany's CAT restrictions, therefore, seems likely. Furthermore, arms manufactured under coproduction agreements with other West European states are generally not subject to the same restraints.

In Sweden, even though the Socialist Party is no longer in power, the government in principle still refuses to sell arms to areas of tension or to states that

violate human rights. But the principles of humanitarianism and neutrality that ostensibly underlie Swedish CAT policy did not prevent the government from vigorously attempting to win US approval for the sale of Viggen aircraft to India--a sale that it deemed essential for the continued existence of the Swedish aircraft industry.

Principled opposition to arms sales is not as prevalent in the UK as it is in Sweden and West Germany, but because it is found mainly within the left wing of the ruling Labor Party, it has considerable political importance. The anti-CAT faction in the Labor Party, however, has not yet been able to persuade the government to eschew the economic benefits of continued arms sales, unless all other suppliers do so as well.

The Italian and French leftist parties share, at least in principle, the general West European leftist opposition to arms sales. Since the Italian Communist Party holds the power of parliamentary life and death over the government, it probably could induce the government to modify its current extremely liberal sales policy. The PCI's concern over the economic consequences, however, will probably keep it from demanding too much in the way of restraint.

Leftist opposition to CAT will probably be least influential in France. The Socialist and Communist parties are torn between principle and economic reality on the issue. In any case, they will have little influence on the government, since the center-right parties, who support arms sales, recently won a new parliamentary majority.

US espousal of CAT restraints has thus far had relatively little success in persuading West European governments to change their policy. It has, however, given new salience to the views of those opposed to arms sales to the LDCs. Ironically, the West Europeans who share the US position on arms transfers are by and large leftists who oppose US influence in West European affairs. In contrast, West European governments are generally well disposed to the US, but want to maintain the economic and political benefits of arms sales.

Many West Europeans, particularly in France and Italy, have dealt with their ambivalence toward the

American policy on arms transfer by questioning its sincerity. Recent US sales to Iran, Saudi Arabia, Egypt, and Israel have not helped to allay their suspicions. These West European skeptics maintain that US advocacy of CAT restraints is essentially rhetorical, that the US proposes multilateral curbs only in order to stem the decline in its share of the arms market. At best, this suspicion lessens the seriousness with which the West Europeans view US advocacy of CAT limitations. At worst, it makes them fear that West European restraint would allow the US to expand its already dominant position as a conventional arms supplier.

Outlook

The West European states vary in their receptivity to US proposals for multilateral CAT restraints, with West Germany and Sweden apparently the most sympathetic, and France and Italy the most opposed. No state is likely to be the sole holdout to a program that the others accepted, but neither is any state likely at present to move forward unilaterally on the issue.

There are probably three conditions that would have to be met before the West Europeans would agree to CAT restraints. First, all Western arms suppliers would have to participate so that none gained any economic or political advantage at the other's expense. Second, to ally West European fears about enhanced Soviet influence in the Third World, the same restrictions would have to be observed by the Soviet Union. Third, the limitations on sales to the LDCs would have to be offset by increased NATO procurement of West European - made arms, so that little or no economic damage would result from export restraints.

The West Europeans seriously question whether the second and third conditions can be met. They doubt that the US will be politically able (given the domestic importance of its own arms industry) to give up much of the NATO market. Probably even more important, they doubt that the Soviets will exercise restraint. [redacted] 25X1

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